W4	Learning Area	Entrepreneurship	Grade Level	11 and 12
	Quarter	4th	Date	Week 4

IV. LEARNING PHASES AND LEARNING ACTIVITIES

I. Introduction (Time Frame: 10 min.)

If revenues and expenses should turn out to be equal, the company will have broken even. Net income is one of the most important indicators of the financial health of a business. The first is the pre-tax income, which is the amount the company earned before taking taxes into account.

In our previous topic, you have learned about forecast revenue and cost to be incurred, forecasting problems, and the benefits of financial forecasting. You were able to explain why these are important in businesses and the objectives behind a company's core principles. To review this, answer briefly the following questions below. Write your answer on a separate sheet of pad paper.

1. What is forecasting revenue? How is it important to entrepreneurs?
2. Why do we need to forecast the cost to be incurred in a business?
3. What are the costs associated with forecasting?

With the knowledge you have right now, we will proceed with our next lesson.

D. Development (Time Frame: 50 min.)

PROFIT/ NET INCOME

Profit describes the financial benefit realized when the revenue generated from a business or activity exceeds the expenses, costs, and taxes involved in sustaining the activity in question. Any profits earned funnel back to business owners, who choose to either pocket the cash or reinvest it back into the business.

Figure1 https://bit.ly/3vi2XPA

What Does Profit Tell You?

Profit is the money a business pulls in after accounting for all expenses. Whether it's a lemonade stand or a publicly traded multinational company, the primary goal of any business is to earn money, therefore a business performance is based on profitability, in its various forms.

Some analysts are interested in top-line profitability, whereas others are interested in profitability before taxes and other expenses. Still, others are only concerned with profitability after all expenses have been paid.

The **three major types of profit** are **gross profit**, **operating profit**, and **net profit**--all of which can be found on the income statement. Each profit type gives analysts more information about a company's performance, especially when it's compared to other competitors and periods.

Figure 2...Profit http://bit.ly/3s5v5UP

IV. LEARNING PHASES AND LEARNING ACTIVITIES

Gross, Operating, and Net Profit

1. **Gross profit** is the sales minus the cost of goods sold. Sales are the first line item on the income statement, and the cost of goods sold (COGS) is generally listed just below it.

Formula: Gross Profit=Total Sales−COGs

2. **Operating profit** is calculated by deducting operating expenses from gross profit. Gross profit looks at profitability after direct expenses, and operating profit looks at profitability after operating expenses.

Formula: Operating Profit=Gross Profit−Operating Expenses

3. **Net profit** is the income left over after all expenses, including taxes and interest, have been paid.

Formula: Net Profit=Operating Profit−Taxes & Interest

(For more information, click the link below)
LINK: http://bit.ly/3viJfUr

Computing for Profit

The simplest formula in computing the profit is by subtracting total expenses from total revenue as shown in the box. The computation of profit is by deducting direct costs and indirect costs (also known as overheads) from sales (Informi, 2020). Direct costs are expenses that directly go into producing goods or providing services such as labor, materials, and other manufacturing supplies; while indirect costs are the general business expenses that keep the business operations such as rent, utilities, and general office expenses (Blakely-Gray,2018)

This simplest formula is total revenue – total expenses = profit. Profit is calculated by deducting direct costs, such as materials and labor, and indirect costs (also known as overheads) from sales.

Total revenue
- <u>Total expenses</u>
PROFIT

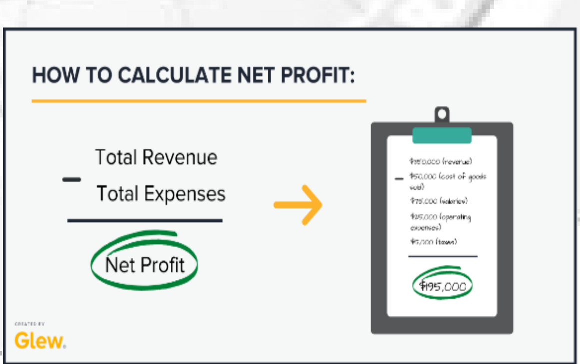

Figure 3. Net Profit. http://bit.ly/3tBpztr

Based on the normal accounting guidelines, sales and expenses are included in profit on the day they occur, not on the day of actual payment so profit will include credit sales and purchases even when they are not yet paid.

Here is an example:
A business buys 3,000 of stock in October and agrees to pay for it in three months. It sells the stock in the month in which it was purchased (October) for 5,000 cash. The profit for the month is 2,000. Even the reality that the stock was not paid for immediately is not important when calculating profit.